

ORIGINAL

COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

OPEN MEETING ITEM



ARIZONA CORPORATION COMMISSION

DATE: JULY 30, 2012
DOCKET NOS.: W-02111A-11-0272; W-02111A-11-0340 AND W-02111A-11-0435

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Marc E. Stern. The recommendation has been filed in the form of an Order on:

SABROSA WATER COMPANY
(RATES/FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by 4:00 p.m. on or before:

AUGUST 8, 2012

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

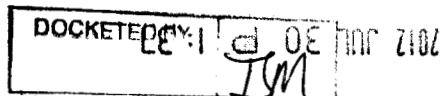
AUGUST 14, 2012 AND AUGUST 15, 2012

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

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ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

3 GARY PIERCE - Chairman
4 BOB STUMP
5 SANDRA D. KENNEDY
6 PAUL NEWMAN
7 BRENDA BURNS

8 IN THE MATTER OF THE SABROSA WATER
9 COMPANY FOR APPROVAL OF A RATE
10 INCREASE.

DOCKET NO. W-02111A-11-0272

11 IN THE MATTER OF THE APPLICATION OF
12 SABROSA WATER COMPANY FOR APPROVAL
13 OF FINANCING.

DOCKET NO. W-02111A-11-0340

14 IN THE MATTER OF THE APPLICATION OF
15 SABROSA WATER COMPANY FOR APPROVAL
16 OF FINANCING TO DEEPEN ITS ZORRILLO
17 WELL.

DOCKET NO. W-02111A-11-0435

DECISION NO. _____

ORDER

18 Open Meeting
19 August 14 and 15, 2012
20 Phoenix, Arizona

21 **BY THE COMMISSION:**

22 On July 7, 2011, Sabrosa Water Company ("SWC" or "Company") filed with the
23 Arizona Corporation Commission ("Commission") an application for a rate increase in Docket
24 No. W-02111A-11-0272.

25 On August 5, 2011, the Commission's Utilities Division ("Staff") filed a Sufficiency Letter in
26 the rate case, stating that SWC's rate application had met the sufficiency requirements as outlined in
27 A.A.C. R14-2-103, and that the Company had been classified as a Class "D" utility.

28 On September 9, 2011, SWC filed with the Commission an application for financing,
requesting that the Commission authorize the Company to obtain a Water Infrastructure Financing
Authority ("WIFA") loan in the amount of approximately \$89,000 to cover costs related to its arsenic
treatment plant. Additionally, SWC filed a request to suspend the time clock in the rate case to allow
the Company additional time to file an amended rate application.

On September 13, 2011, Staff filed a response to SWC's request for the suspension of the

1 time clock in the rate case. Staff stated that it agreed with the Company's request to suspend the time
2 clock.

3 On September 15, 2011, by Procedural Order, the time frame in the rate case was suspended.

4 On November 3, 2011, SWC filed an amendment to its finance application which included
5 additional arsenic treatment costs.

6 On November 23, 2011, SWC filed an amendment to its rate application.

7 On December 6, 2011, SWC filed with the Commission a second application for financing
8 approval for a WIFA loan of \$13,000 to deepen its Zorrillo Well.¹

9 On February 29, 2012, Staff filed a request to restart the time frame in the rate case, stating
10 that Staff expected to file its Staff Report within ten days.

11 On March 9, 2012, Staff filed a Motion to Consolidate the three above-captioned dockets,
12 stating that the issues involved in these matters were substantially related and that no party's rights
13 would be prejudiced by consolidation. Staff believed that consolidation of the proceedings would aid
14 the Commission in its evaluation of each of the applications.

15 On March 16, 2012, by Procedural Order, Staff's request for consolidation of the above-
16 captioned dockets was granted.

17 On April 5, 2012, Staff filed its report recommending approval of its proposed rates and
18 charges and recommended approval of the financing applications herein.

19 On April 9, 2012, Staff filed a supplement to its report.

20 On April 30, 2012, Staff filed a revised Staff Report with respect to the Company's
21 applications for a permanent rate increase and its two applications for approval of financing.

22 * * * * *

23 Having considered the entire record herein and being fully advised in the premises, the
24 Commission finds, concludes, and orders that:

25 **FINDINGS OF FACT**

26 1. SWC is a business entity which provides public water utility service to approximately
27

28 ¹ The Company has two active wells, the Zorrillo Well and the Sabrosa Well.

1 35 customers in the vicinity of New River, Arizona.²

2 2. SWC's present rates and charges were approved in Decision No. 69574 (May 21,
3 2007).³

4 3. On July 7, 2011, SWC filed an application requesting authority to increase its rates
5 and charges for water service. The application was filed by the Company's current interim manager,
6 Don Bohlmer, who operates the Granite Springs Water Company in Prescott.

7 4. On August 5, 2011, Staff filed a Sufficiency Letter indicating that the Company's rate
8 application had met the Commission's sufficiency requirements pursuant to A.A.C. R14-2-103.

9 5. On September 9, 2011, SWC filed an application for financing approval wherein the
10 Company requested that the Commission authorize the Company to obtain a WIFA loan in the
11 amount of approximately \$89,000 for the costs related to the construction of an arsenic treatment
12 facility. The Company further requested that the rate case time frame be suspended because it wished
13 to amend its rate application.

14 6. On September 15, 2011, by Procedural Order, the time frame in the rate proceeding
15 was suspended.

16 7. On November 3, 2011, SWC filed an amendment of its financing application to allow
17 for additional costs for the construction of the arsenic treatment facilities.

18 8. On November 23, 2011, the Company filed an amendment to its rate application.

19 9. On December 6, 2011, SWC filed a second application for financing approval for a
20 proposed WIFA loan initially for \$13,000 to deepen its Zorillo Well to alleviate a water shortage.

21 10. SWC provided multiple notifications to its customers of its application for a proposed
22 rate increase and its financing applications, the most recent occurring on June 4, 2012, describing the
23 proposed increase in rates which may result from this proceeding. In response thereto, there have

24 ² On May 17, 1971, the Commission issued Decision No. 41298 wherein SWC was awarded a Certificate of Convenience
25 and Necessity ("Certificate") to provide public water utility service to, at that time, approximately 100 customers.
26 Subsequently, on November 16, 2000, the Commission issued Decision No. 63136 which authorized Staff to engage a
27 qualified management entity to operate and manage the Company and bring it into full compliance with Arizona law
because the Company's owner, Mr. Keith J. Morris, had abandoned the system. Since that time, the Company has been
operated by several interim managers. On September 24, 2002, the Commission issued Decision No. 65217, which
revoked the Certificate of SWC.

28 ³ The Company's customers are also subject to a water hauling surcharge tariff approved by the Commission on June 5,
2006, in Decision No. 68745.

1 been no requests for intervention; however, the Commission received opinions from two customers in
2 opposition to the proposed rate increase.

3 11. On April 5, 2012, Staff filed its initial Staff Report recommending that the
4 Commission approve Staff's proposed rates and charges along with the approval of both of SWC's
5 financing applications.

6 12. On April 9, 2012, Staff filed a supplement to its Staff Report which indicated that the
7 Company had complied with Decision No. 69574 (May 21, 2007) indicating that the Company was in
8 compliance with the Decision because it had filed documentation from the Arizona Department of
9 Revenue ("ADOR") which confirmed that the Company had obtained a Transaction Privilege Tax
10 ("TPT") identification number and established that it collects and remits its sales taxes under the
11 Company's name.

12 13. On April 30, 2012, Staff filed a revised Staff Report correcting the amount of the loan
13 required for the Company's proposed arsenic treatment plant in the amount of \$136,252 rather than
14 the \$149,877 originally stated in the initial Staff Report, and also corrected other minor errors.

15 14. There have been no comments or exceptions filed to the revised Staff Report.

16 15. During the test year ended December 31, 2010 ("TY"), the Company served 32
17 metered customers who were served by 5/8-inch x 3/4-inch meters, and three other customers who
18 were served by somewhat larger meters.

19 16. Average and median water usage by residential users during the TY were 3,646 and
20 2,433 gallons per month, respectively.

21 17. Staff conducted an investigation of the Company's proposed rates and charges for
22 water service and on April 30, 2011, filed the revised Staff Report on the Company's rate application
23 and its financing applications. Staff recommended that its proposed rates and charges be approved,
24 and further recommended approval of \$110,435 in long-term financing for the deepening of the
25 Zorillo Well and approved the long-term financing application for the proposed arsenic treatment
26 facilities for the system, if it is needed, in the amount of \$136,252.

27 18. The water rates and charges for the Company at present, as proposed in the
28 application, and as recommended by Staff in its revised Staff Report are as follows:

MONTHLY USAGE CHARGES:	Present	- Proposed Rates -	
	Rates	Company	Staff
5/8" x 3/4" Meter	\$ 39.50	\$ 39.50	\$ 60.00
3/4" Meter	39.50	39.50	60.00
1" Meter	39.50	39.50	105.00
1 1/2" Meter	200.00	200.00	300.00
2" Meter	320.00	320.00	395.00
3" Meter	600.00	600.00	960.00
4" Meter	1,000.00	1,000.00	1,500.00
6" Meter	2,000.00	2,000.00	3,000.00

Gallons included in minimum: -0- -0- -0-

COMMODITY CHARGES: (Per 1,000 Gallons)	Present	- Proposed Rates -	
	Rates	Company	Staff
First Tier - 0-3,000 gallons	\$ 6.00	\$ 6.00	N/A
Second Tier - 3,001-10,000 gallons	9.00	9.00	N/A
Third Tier - Over 10,000 gallons	10.80	10.80	N/A
5/8" x 3/4" and 3/4" Meter Sizes			
First Tier - 0-3,000 gallons	N/A	N/A	\$ 8.00
Second Tier - 3,001-10,000 gallons	N/A	N/A	16.00
Third Tier - Over 10,000 gallons	N/A	N/A	26.00
All Other Meter Sizes			
First Tier - 0-3,000 gallons	N/A	N/A	\$ 16.00
Second Tier - 3,001-10,000 gallons	N/A	N/A	26.00

Water Hauling Surcharge *** \$ 39.00 ***

SERVICE LINE AND METER INSTALLATION CHARGES:
(Refundable pursuant to A.A.C. R14-2-405)

	----- Company Proposed -----				----- Staff Recommended -----		
	Current Rates	Service Line	Meter	Total	Service Line	Meter	Total
5/8 x 3/4" Meter	\$ 400.00	\$ 400.00	\$ 104.00	\$ 504.00	296.00	400.00	696.00
3/4" Meter	440.00	440.00	144.00	584.00	296.00	440.00	736.00
1" Meter	500.00	500.00	195.00	695.00	305.00	500.00	805.00
1-1/2" Meter	715.00	715.00	350.00	1,065.00	365.00	715.00	1,080.00
2" Turbine Meter	1,170.00	1,170.00	655.00	1,825.00	515.00	1,170.00	1,685.00
2" Compound Meter	1,700.00	1,700.00	1,173.00	2,873.00	527.00	1,700.00	2,227.00
3" Turbine Meter	1,585.00	1,585.00	983.00	2,568.00	602.00	1,585.00	2,187.00
3" Compound Meter	2,190.00	2,190.00	1,511.00	3,701.00	679.00	2,190.00	2,869.00
4" Turbine Meter	2,540.00	2,540.00	1,626.00	4,166.00	914.00	2,540.00	3,454.00
4" Compound Meter	3,215.00	3,215.00	2,218.00	5,433.00	997.00	3,215.00	4,212.00
6" Turbine Meter	4,815.00	4,815.00	3,322.00	8,137.00	1,493.00	4,815.00	6,308.00
6" Compound Meter	6,270.00	6,270.00	4,702.00	10,972.00	1,568.00	6,270.00	7,838.00

SERVICE CHARGES:	Present	- Proposed Rates -	
	Rates	Company	Staff
Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	50.00	50.00	NT
Reconnection (Delinquent)	30.00	30.00	30.00
Meter Test (If Correct)	30.00	30.00	30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Reestablishment (Within 12 Months)	**	**	**
NSF Check	\$ 25.00	25.00	\$ 25.00
Deferred Payment (Per Month)	1.5%	1.5%	1.5%
Meter Re-Read (If Correct)	\$ 25.00	\$ 25.00	\$ 25.00
Late Payment Charge (Per Month)	N/A	1.5%	1.5%
After Hours Service Charge	N/A	N/A	\$ 25.00

**MONTHLY SERVICE CHARGE
FOR FIRE SPRINKLERS:**

	Present Rates	- Proposed Rates -	
		Company	Staff
4" or Smaller	\$ 0.00	\$ 0.00	****
6"	0.00	0.00	****
8"	0.00	0.00	****
10"	0.00	0.00	****
Larger than 10"	0.00	0.00	****

* Per Commission Rule A.A.C. R-14-2-403(B).

** Number of months off system times the monthly minimum, per Commission Rule A.A.C. R14-2-403(D).

*** Surcharge calculated by dividing the total water hauling costs incurred in a given month by the amount of water sold that month. The resulting rate per 1,000 gallons will then be multiplied by the gallons used in that month for customer to arrive at the surcharge per 1,000 gallons, appearing in the next monthly bill as a separate line item.

**** 2.0% of monthly minimum for a comparable sized meter connection, but no less than \$10 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

NT = No Tariff

19. Pursuant to the revised Staff Report, the Company's fair value rate base ("FVRB") is determined to be \$37,313 which is the same as its original cost rate base. SWC's FVRB reflects a \$26,880 reduction by Staff to the Company's proposed FVRB due in large part to accumulated depreciation of \$40,322.

20. In the revised Staff Report, Staff increased SWC's TY operating expenses by \$5,448, largely due to an increase in depreciation expense of \$5,603.

21. SWC's present water rates and charges produce adjusted operating revenues of \$31,941 and adjusted operating expenses of \$49,437 which resulted in an operating loss of \$17,496 for the TY.

22. The water rates and charges the Company proposed would produce operating revenues of \$37,814 and adjusted operating expenses of \$49,996 resulting in a net operating loss of \$12,182 or a negative return on FVRB.

23. The water rates and charges proposed by Staff in the revised Staff Report would produce adjusted operating revenues of \$49,996⁴ and adjusted operating expenses of \$49,996 resulting in no operating income; however, according to the Staff Report, after adding in the funds to be received by the applicant if the two WIFA loans are approved and surcharges added to the Company's customers' bills, after payments on the two loans described hereinafter, Sabrosa should realize a positive cash flow of \$9,320, due to depreciation expense.

24. SWC, with its rate application, is not seeking an increase either in its monthly usage

⁴ This amount does not include surcharge revenue.

1 charges or its commodity rates, but is seeking approval of a \$39.50 water hauling surcharge, and
2 approval for the appropriate surcharge for each of the Company's financing applications in order to
3 service those debts if the Company is successful in securing financing from WIFA.

4 25. Staff's recommended rates would increase the average and median monthly customer
5 water bill in one of three scenarios as follows:

- 6 (a) Recommended increase with no surcharges included: Increase the average
7 monthly customer water bill by 49 percent, from \$63.31 to \$94.33, and the
8 median monthly customer water bill by 46.9 percent, from \$54.10 to \$79.46;
9 (b) Recommended rates including the surcharge for the \$110,435 loan to deepen
10 the Zorillo Well: Increase the average monthly customer water bill by 74.2
11 percent, from \$63.31 to \$110.26, and the median monthly customer water bill
12 by 76.3 percent, from \$54.10 to \$95.39; and
13 (c) Recommended rates including the surcharge for the \$136,252 loan to construct
14 arsenic treatment facilities for the Zorillo Well and the Sabrosa Well: Increase
15 the average monthly customer water bill 105.2 percent, from \$63.31 to
16 \$129.91, and the median monthly customer water bill by 112.6 percent, from
17 \$54.10 to \$115.04.

18 26. SWC, with its financing application filed on September 9, 2011, is seeking
19 Commission approval for a loan from WIFA in the amount of \$136,252 to pay for arsenic treatment
20 facilities to treat the Company's water.

21 27. SWC, with its financing application filed on December 6, 2011, is seeking
22 Commission approval for a second long-term financing loan in the amount of \$110,435 in order to
23 deepen its Zorillo Well.

24 28. The Company, with the applications filed by its interim management, did not propose
25 a feasible method in which to recover and fund the long-term loans for which approval is sought
26 herein and instead relies upon Staff's recommendations in order to generate sufficient cash flow to
27 meet the Company's debt obligations and to insure its ongoing operations.

28 29. As a result, Staff is recommending a 56.53 percent revenue increase over TY revenue
of \$31,941 to \$49,996 for the Company's customers along with a \$15.93 surcharge per month to
cover the cost to deepen the Zorillo Well and an additional surcharge per customer per month of
\$19.65 to cover the cost of the arsenic treatment facilities for the Zorillo and Sabrosa Wells.
According to the Staff Report, the two surcharges should produce funding to pay the debt service on

1 the WIFA loans in the amount of \$19,211 and should leave the Company with a positive cash flow of
2 \$9,320 due to Staff's recommended revenue increase. Staff states that its revenues generated through
3 the Company's base rates will be sufficient to cover all operations and maintenance, and that the loan
4 surcharges should provide for debt service on the proposed WIFA loans.

5 30. According to the Engineering Report attached to the Staff Report, the Company's
6 water is pumped from two shallow wells with a combined capacity of 50 gallons per minute, and the
7 well capacity is noted to be "extremely unreliable." Additionally, the system has only one 5,000-
8 gallon storage tank to serve its 35 metered customers.

9 31. Staff notes that sufficient water production is an issue for the system when there is
10 inadequate precipitation to recharge the local aquifer. This results in the Company having to rely on
11 water hauling to meet the demands of its limited number of customers.

12 32. Staff found that during the TY the Company had to purchase 43,000 gallons of water
13 to offset shortages in water production from the Company's two wells. Staff also found that SWC's
14 water system had a water loss of 46 percent, which exceeds Staff's recommended 10 percent
15 threshold, requiring monitoring by the Company to insure that water loss remains at 10 percent or
16 less in the future.

17 33. Staff states that according to a memorandum from the Maricopa County
18 Environmental Services Department ("MCESD") SWC has major deficiencies in its operations and
19 maintenance and in water quality monitoring and has a major deficiency exceeding the Maximum
20 Contaminant Level ("MCL") for arsenic. However, the Arizona Department of Water Resources
21 ("ADWR") stated that the Company is compliant with its requirements.

22 34. With respect to Commission compliance, Staff indicates that SWC has no compliance
23 issues.

24 35. In order to address the MCESD concerns with respect to the arsenic in its water, the
25 Company has requested Commission approval for a WIFA loan in the amount of \$136,252 and Staff
26 has concluded that Sabrosa's proposal to install arsenic treatment facilities should be approved, but
27 cannot be completely calculated until the quality and quantity of water produced from the deepened
28 Zorillo Well becomes known.

36. With respect to SWC's proposed financing request for the deepening of its Zorillo Well in the amount of \$110,435, utilizing WIFA financing, Staff believes the Company will have to deepen its well to 1,000 feet before reaching the regional aquifer which can provide a reliable source of water.

37. Staff believes that the deepening and rehabilitation of the Zorillo Well is appropriate and that the costs are reasonable; however, no "used and useful" determination of the proposed project should be made for rate making or rate base purposes in the future in this proceeding.

38. According to the Staff Report, Sabrosa has an approved Curtailment Tariff and also an approved Cross Connection and Backflow Prevention Tariff.

39. In addition to recommending approval of its proposed rates and charges, Staff is also recommending that the Commission order the following:

- (a) That SWC notify its customers of the approved water rates and charges and of their effective date by the means of an insert in the monthly billing which precedes the month in which they become effective and file a copy of the notice sent to its customers with the Commission's Docket Control as a compliance item in this docket;
- (b) That SWC file, within 30 days of the effective date of this Decision, with the Commission's Docket Control a copy of the schedule of its approved rates and charges;
- (c) That SWC maintain its books and records in accordance with the National Association of Regulatory Utility Commissioners ("NARUC") Uniform System of Accounts ("USOA");
- (d) The approval of the SWC's WIFA financings in the amount of \$136,252 and \$110,435 and the associated surcharge mechanisms that may result in surcharges of \$19.65 per month and \$15.93 per month per customer;
- (e) That the actual amount of the WIFA loan surcharges shall be calculated based upon the actual amount of the loans and the actual number of customers at the time of the closings on the loans;
- (f) That SWC file, within 30 days of the execution of any financing transaction authorized herein, with the Commission's Docket Control, as a compliance item in this docket, a notice confirming that such execution has occurred and a certification by an authorized Company representative that the terms of the financing fully comply with the authorization granted herein;
- (g) That SWC provide to Staff, upon request, a copy of any loan documents executed pursuant to the authorizations granted herein;
- (h) That upon filing of the appropriate loan closing notices, SWC shall file in this docket an application requesting authorization to implement the associated surcharges;

- 1 (i) That within 30 days of the filing of the appropriate surcharge implementation
2 request, Staff shall calculate the appropriate WIFA surcharge and prepare and
3 file a recommended Order for Commission consideration;
- 4 (j) That approval of the loans and surcharges be rescinded if SWC has not drawn
5 funds from the Zorillo Well deepening loan within one year of the effective
6 date of this Decision;
- 7 (k) That the execution of the WIFA loan for arsenic treatment in the amount of
8 \$136,252 and its associated surcharge be completed only upon the Company's
9 deepening of the Zorillo Well and finding a water supply that does not allow
10 the Company to meet the MCESD arsenic limitation requirement;
- 11 (l) That upon approval of the WIFA surcharges, SWC shall open a separate
12 interest-bearing account in which all surcharge monies collected from
13 customers will be deposited;
- 14 (m) That the only funds which shall be disbursed for the WIFA loans shall come
15 from the surcharge account;
- 16 (n) That SWC shall file, by April 15th of each year, with the Commission's Docket
17 Control, as a compliance item in this docket, a report reconciling all surcharge
18 monies billed and collected, along with copies of the prior year's monthly bank
19 statements for the surcharge accounts;
- 20 (o) That SWC adopt the depreciation rates delineated in Exhibit 6 of the
21 Engineering Report which is attached to the revised Staff Report;
- 22 (p) That because SWC's calculated water loss was 46 percent, the Company shall
23 monitor its system closely and take action to insure that water loss remains 10
24 percent or less in the future. If water loss exceeds 10 percent, calculated on an
25 annual basis, the Company shall, prior to filing its next rate case, come up with
26 a plan to reduce water loss to 10 percent or less, or prepare a report containing
27 a detailed analysis and explanation demonstrating why a water loss reduction
28 to 10 percent or less is not feasible or cost effective;
- (q) That SWC file, by January 31, 2013, with the Commission's Docket control, as
a compliance item in this docket, a copy of the MCESD Approval of
Construction ("AOC") for the Zorillo Well project;
- (r) That, if SWC is required to finance the arsenic treatment facilities following
the deepening of the Zorillo Well, the Company file, by May 31, 2013, with
the Commission's Docket Control as a compliance item in this docket, a copy
of the MCDES AOC for those facilities;
- (s) That SWC file, within 30 days of the effective date of this Decision, with the
Commission's Docket Control as a compliance item in this docket, the four
BMPs in the form of tariffs that substantially conform to the four BMPs
previously filed; and
- (t) That SWC, in addition to the collection of its regular rates and charges, collect
from its customers their proportionate share of any privilege, sales or use tax as
provided for in A.A.C R14-2-409(D).

40. Because an allowance for the property tax expense of SWC is included in the Company's rates and will be collected from its customers, the Commission seeks assurances from the Company that any taxes collected from rate payers have been remitted to the appropriate taxing authority. It has come to the Commission's attention that a number of water companies have been unwilling or unable to fulfill their obligation to pay the taxes that were collected from rate payers, some for as many as 20 years. It is reasonable, therefore, that as a preventive measure the Company shall annually file, as part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

41. Under the circumstances, after our review of the respective applications herein and the revised Staff Report, we believe that Staff's proposed revised rates are reasonable and should be adopted together with the remainder of Staff's recommendations stated hereinabove including the requested financing approvals.

CONCLUSIONS OF LAW

1. The Company is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-250, 40-251, 40-301 and 40-302.

2. The Commission has jurisdiction over the Company and of the subject matter of the applications.

3. Notice of the applications was provided in the manner prescribed by law.

4. Under the circumstances discussed herein, the rates and charges proposed by Staff and authorized hereinafter are just and reasonable.

5. Staff's recommendations set forth in Findings of Fact No. 39 are reasonable and should be adopted.

6. The financings approved herein are for lawful purposes within the Company's corporate powers, are compatible with the public interest, with sound financial practices, and with the proper performance by the Company of services of a public service corporation, and will not impair the Company's ability to perform that service.

7. The financings approved herein are for the purposes stated in the applications and are reasonably necessary for those purposes, and such purposes are not wholly or in part, reasonably

chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Sabrosa Water Company is hereby directed to file, with the Commission's Docket Control, as a compliance item in this docket, on or before August 31, 2012, a revised rate schedule setting forth the following rates and charges:

MONTHLY USAGE CHARGES:

5/8" x 3/4" Meter	\$ 60.00
3/4" Meter	60.00
1" Meter	105.00
1½" Meter	300.00
2" Meter	395.00
3" Meter	960.00
4" Meter	1,500.00
6" Meter	3,000.00

COMMODITY CHARGES:

(Per 1,000 Gallons)

5/8" x 3/4" and 3/4" Meter Sizes	
First Tier – 0-3,000 gallons	\$ 8.00
Second Tier – 3,001-10,000 gallons	16.00
Third Tier – Over 10,000 gallons	26.00
All Other Meter Sizes	
First Tier – 0-3,000 gallons	\$ 16.00
Second Tier – 3,001-10,000 gallons	26.00
Water Hauling Surcharge	***

SERVICE LINE AND METER INSTALLATION CHARGES:

(Refundable pursuant to A.A.C. R14-2-405)

	<u>Service Line</u>	<u>Meter</u>	<u>Total</u>
5/8 x 3/4" Meter	\$ 296.00	\$ 400.00	\$ 696.00
3/4" Meter	296.00	440.00	736.00
1" Meter	305.00	500.00	805.00
1-1/2" Meter	365.00	715.00	1,080.00
2" Turbine Meter	515.00	1,170.00	1,685.00
2" Compound Meter	527.00	1,700.00	2,227.00
3" Turbine Meter	602.00	1,585.00	2,187.00
3" Compound Meter	679.00	2,190.00	2,869.00
4" Turbine Meter	914.00	2,540.00	3,454.00
4" Compound Meter	997.00	3,215.00	4,212.00
6" Turbine Meter	1,493.00	4,815.00	6,308.00
6" Compound Meter	1,568.00	6,270.00	7,838.00

SERVICE CHARGES:

Establishment	\$ 25.00
Reconnection (Delinquent)	\$ 30.00
Meter Test (If Correct)	\$ 30.00
Deposit	*
Deposit Interest	*
Reestablishment (Within 12 Months)	**
NSF Check	\$ 25.00
Deferred Payment (Per Month)	1.5%

Meter Re-Read (If Correct)	\$ 25.00
Late Payment Charge (Per Month)	1.5%
After Hours Service Charge	\$ 25.00

MONTHLY SERVICE CHARGE FOR FIRE SPRINKLERS:

4" or Smaller	****
6"	****
8"	****
10"	****
Larger than 10"	****

* Per Commission Rule A.A.C. R-14-2-403(B).

** Number of months off system times the monthly minimum, per Commission Rule A.A.C. R14-2-403(D).

*** Surcharge calculated by dividing the total water hauling costs incurred in a given month by the amount of water sold that month. The resulting rate per 1,000 gallons will then be multiplied by the gallons used in that month for customer to arrive at the surcharge per 1,000 gallons, appearing in the next monthly bill as a separate line item.

**** 2.0% of monthly minimum for a comparable sized meter connection, but no less than \$10 per month. The service charge for fire sprinklers is only applicable for service lines separate and distinct from the primary water service line.

NT = No Tariff

IT IS FURTHER ORDERED that the above rates and charges shall be effective on September 1, 2012, for all water service.

IT IS FURTHER ORDERED that Sabrosa Water Company shall notify its customers of the rates and charges authorized hereinabove and the effective date of same by means of an insert, in a form acceptable to Staff, in the next regular monthly billing and file a copy of the notice sent to its customers with the Commission's Docket Control as a compliance item in this docket.

IT IS FURTHER ORDERED that Sabrosa Water Company shall comply with each of the recommendations appearing in Findings of Fact No. 39.

IT IS FURTHER ORDERED that Sabrosa Water Company shall maintain its books and records in accordance with the NARUC USOA.

IT IS FURTHER ORDERED that Sabrosa Water Company, in addition to the collection of its regular rates and charges, shall collect from its customers their proportionate share of any privilege, sales or use tax as provided for in A.A.C R14-2-409(D).

IT IS FURTHER ORDERED that Sabrosa Water Company shall annually file as part of its Annual Report, an affidavit with the Utilities Division attesting that the Company is current in paying its property taxes in Arizona.

IT IS FURTHER ORDERED that the applications of Sabrosa Water Company for authority to contract with the Water Infrastructure Authority of Arizona for long-term debt not to exceed

1 \$110,435 for the deepening of the Zorillo Well at an interest rate not to exceed 4.8 percent per annum
2 for a period no longer than 20 years and for long-debt not to exceed \$136,252 for arsenic treatment
3 facilities required for the Zorillo Well and Sabrosa Well at an interest rate not to exceed 4.8 percent
4 per annum and for a period no longer than 20 years, shall be, and is hereby, approved as set forth
5 herein.

6 IT IS FURTHER ORDERED that such authority is expressly contingent upon Sabrosa Water
7 Company's use of the proceeds for the purposes set forth herein.

8 IT IS FURTHER ORDERED that Sabrosa Water Company is hereby authorized to engage in
9 any transactions and to execute any documents necessary to effectuate the authorizations granted
10 herein.

11 IT IS FURTHER ORDERED that Sabrosa Water Company shall file, within 30 days of the
12 execution of either loan, with the Commission's Docket Control, as a compliance item in this docket
13 copies of all executed documents associated with the financings authorized herein.

14 IT IS FURTHER ORDERED that the financings approved herein shall not guarantee or imply
15 any specific treatment of any capital additions for rate base or rate making purposes.

16 IT IS FURTHER ORDERED that Sabrosa Water Company shall file, by January 31, 2013, a
17 copy of the MCESD AOC for the deepening of the Zorillo Well.

18 IT IS FURTHER ORDERED that Sabrosa Water Company shall file, by May 31, 2013, if
19 necessary for the arsenic treatment facilities to be constructed, with the Commission's Docket
20 Control, as a compliance item in this docket, a copy of the MCESD AOC for that facility.

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1 SERVICE LIST FOR:

SABROSA WATER COMPANY, INC.

2

3 DOCKET NOS.:

W-02111A-11-0272, W-02111A-11-0340 and
W-02111A-11-0435

4

5 Don Bohler, Interim Manager
6 SABROSA WATER COMPANY
7 303 East Gurley Street, PMB 445
8 Prescott, AZ 86301

9

10 Janice Alward, Chief Counsel
11 Legal Division
12 ARIZONA CORPORATION COMMISSION
13 1200 West Washington Street
14 Phoenix, AZ 85007

15

16 Steven M. Olea, Director
17 Utilities Division
18 ARIZONA CORPORATION COMMISSION
19 1200 West Washington Street
20 Phoenix, AZ 85007

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1 IT IS FURTHER ORDERED that any authorizations granted herein with respect to the long-
2 term debt not utilized by the Sabrosa Water Company as of December 31, 2014, shall terminate.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

4 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.
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6

7 CHAIRMAN _____ COMMISSIONER _____

8
9 COMMISSIONER _____ COMMISSIONER _____ COMMISSIONER _____

10 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
11 Executive Director of the Arizona Corporation Commission,
12 have hereunto set my hand and caused the official seal of the
13 Commission to be affixed at the Capitol, in the City of Phoenix,
14 this _____ day of _____ 2012.

15 _____
16 ERNEST G. JOHNSON
17 EXECUTIVE DIRECTOR

18 DISSENT _____

19 DISSENT _____

20 MES:db
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